

Fullermoney

Global Strategy and Investment Trends by David Fuller

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Please note: This is a compilation of Comment of the Day for Subscribers, which appeared on the www.fullermoney.com website during the last week. Subscribers are encouraged to login at their convenience, to read the daily coverage and use the many other site facilities, including the Library of charts.

Monday 29th September 2008

House rejects Wall Street bailout plan - [Here are excerpts from today's big story](#), reported by the [Los Angeles Times](#):

WASHINGTON -- The House today rejected a \$700-billion Wall Street bailout that would have been the biggest government intervention in the financial system since the Great Depression, sending the stock market into a sharp downturn and leaving President Bush's plan to bailout the economy in doubt.

The vote was 205 in favor of the measure and 228 against. The Dow Jones industrial average fell about 500 points in early afternoon trading on the East Coast.

Rep. Paul Kanjorski (D-Pa.) said that he would return to his district to explain that "we're not bailing someone out in a far-off place called Wall Street. We're making sure that next week and next month a worker in my hometown of Nanticoke, Pa., will be able to go to his ATM machine and draw out money."

"This is not an easy vote for any member in this chamber," Kanjorski added, "However, I will tell you this: It is time for all good men to come to the defense of their country and to the times ... and in my opinion, that means we must put aside our own personal careers, our own personal thoughts and even our own ideas of what would be the right thing and vote to save this country's economic system ... put aside partisanship, put aside fear and realize why we are here."

My view - [The spectre of Congress shuffling political deckchairs as the financial crisis deepens can only add to investors concerns. I will comment in more detail in tonight's Audio.](#)

Here also is [The New York Times report](#) on the vote.

As financial crisis spreads, few good scenarios are in view - [This is a good article from The Wall Street Journal - Europe, outlining four possible courses for the US economy. It is posted in the Subscriber's Area but here is the opening:](#)

The Wall Street turmoil is shaking an already-weakened U.S. economy and could hit households and businesses in the form of fewer loans and higher interest rates in the months ahead -- in turn sending unemployment higher and corporate profits lower.

Economic data released Thursday show the stress in the economy leading up to the crisis and hint at how it may have gotten worse since. Demand for manufactured goods fell sharply in August as new-home sales slid to their lowest monthly level in 17 years. And in the week ended Sept. 20, new unemployment filings hit the highest level since just after the 9/11 terrorist attacks.

U.S. leaders hope the government's massive interventions, plus plans for a big bailout now being negotiated, will soften the blow. The economy also is running on a reassuring quarter-century path of mostly sustained growth that could reassert itself.

But ripple effects from a worsening credit crunch are already making their way from Wall Street to Main Street. General Electric Co. kicked off what could be a parade of profit warnings on Thursday. Many companies have seen their borrowing costs rise in the short-term commercial-paper market.

History, and a close look at recent data, suggest the economy could travel any of four possible routes through the financial crunch. The most likely scenario is a recession marked by a protracted period of tight credit. But three other scenarios -- a dangerous run on the dollar, Japan-style deflation or surprising economic resilience -- are also within the realm of possibility.

Here's a deeper look at how the economy could play out in the months ahead:

My view - Although more extreme scenarios have been mentioned elsewhere, I think the WSJ has identified the main possibilities, three of which understandably weigh on investor sentiment. Of these, the middle two are least likely in my view.

If the USA did not have the world's largest economy and also the global reserve currency, I believe the US dollar would have collapsed and interest rates soared, as we have previously seen during financial crises among developing countries. Long-term risks for the dollar remain. However America's trade partners do not want their own currencies to soar, and their economies would obviously not be unaffected by additional weakness in the USA. Consequently, they are still financing America's current account deficit, evidenced by the US dollar's rally since July and the decline in Treasury yields.

The credit crunch and falling house prices are certainly deflationary for the US economy. However I maintain that a prolonged deflation is probably the least likely outcome on Ben Bernanke's watch, given his understanding of the risks and widely publicised comments earlier in the decade when deflation was also feared. The Fed has been accommodative and has no reason not to remain so, given the dollar's rally and weaker commodity prices, not least for crude oil.

Consequently, I believe the USA's economic outlook is positioned closer to the WSJ's lingering "Credit crunch" but with an outside chance for its "Surprising resilience" scenario. However the latter would be dependent on a successful bipartisan rescue plan. Despite today's vote I think Congress will agree on a plan later this week, but it will only succeed if we then see a steady and significant improvement in credit conditions. This would also boost confidence in other countries, increasing prospects for an export-led recovery by the USA.

Meanwhile, as a leading indicator the stock market will keep us informed of developments.

You Can't Rescue the Financial System If You Can't Read a Balance Sheet - My thanks to a subscriber for this [comment](#) by John Hussman. Here is a key section:

As a side note, a lot has been made of Warren Buffett's investment in the senior preferred stock of Goldman Sachs. But it's notable that Buffett invested in Goldman only upon the conversion of Goldman to a bank holding company, which puts it under a different regulatory structure that gives it access to the Fed window. Goldman's balance sheet has \$40 billion of shareholder equity that would have to be drilled through before getting at the preferred. Evidently, Buffett believes that Goldman's asset mix is diversified enough, and light enough in mortgage assets, that Goldman won't take a major haircut on its entire (largely hedged) portfolio of assets.

Buffett's investment may reflect confidence in Goldman, particularly with a government backstop on whatever questionable assets it does own, but if anything, it suggests that the government should have gone the same route - namely, provide capital in return for a financially viable security that is senior to common shareholder equity, have it accrue a relatively high rate of interest, and allow it to be repaid early (Buffett's preferred is callable by Goldman) as soon as the financial institution can secure cheaper financing.

Instead, the government is taking on financially non-viable securities and warrants on common equity, while failing to improve the capital position of these financial companies at all (unless it overpays). Taxpayers will not make money here.

As Congressman Scott Garrett noted to taxpayers on Sunday, "This morning we should be very much alarmed. Obviously, Washington is not listening to your wishes. Those who used to work for Goldman Sachs will support this deal. Those who have blocked reform in the past will support this deal. I will not support this deal." I couldn't agree more. This is not a good deal, because it will waste taxpayer money without addressing the fundamental solvency problems.

My comment - [John Hussman makes a very interesting point.](#)

European central banks cut sales of gold - My thanks to a subscriber for this [item](#) from the Financial Times. Here is the opening:

European central banks have cut their sales of gold to the lowest level in almost a decade, reversing the practice of recent years when hefty sales helped depress prices.

Institutions bound by the Central Bank Gold Agreement - the banks of the eurozone plus Sweden and Switzerland - sold about 343 tonnes of gold in the year that expired on Friday, the lowest amount since the first CBGA was signed in 1999.

This compares with 475.8 tonnes in the year to the end of September 2007. Under the agreement, the banks are allowed to sell up to 500 tonnes of gold each year.

The European trend is part of a global movement of reduced central bank selling and increased investor buying that is helping to underpin high prices at a time of turmoil in financial markets.

GFMS, the precious metals consultancy, estimates global central banks will sell 269 tonnes of bullion in 2008, the lowest since 1995.

My view - People buy gold ([weekly](#) & [daily](#)) for a variety of reasons but fear is the main driver behind its current strong performance relative to stock markets. Since 2001 Fullermoney has maintained that gold is a sensible long-term investment, best purchased following setbacks.

Outlook for Emerging Markets - My thanks to a subscriber for this interesting [presentation](#) by Jim O'Neill of Goldman Sachs. At a time of considerable stress in stock markets, it provides some useful perspective on emerging markets, which Fullermoney maintains will outperform over the longer term.

OEX Volatility Index (VIX) - Previous spikes by VIX have coincided with market lows, and this [indicator](#) is likely to reach an all-time high tomorrow.

Additional Commentary by Eoin Treacy

European Lenders Rescued by Authorities as U.S. Crisis Spread - [This article](#) by Simon Kennedy for Bloomberg covering the activity in today's European equity markets. Here is a section:

European governments stepped in to rescue Bradford & Bingley Plc, Fortis, and Hypo Real Estate Holding AG as tremors from the U.S. credit crisis reverberated around the world.

The U.K. Treasury seized Bradford & Bingley, Britain's biggest lender to landlords, while governments in Belgium, the Netherlands and Luxembourg threw an 11.2 billion-euro (\$16.3 billion) lifeline to Fortis. Germany guaranteed a loan to Hypo.

The interventions exposed how fallout from the crisis that drove Lehman Brothers Holdings Inc. into bankruptcy and prompted a \$700 billion U.S. bank-rescue package has gone global. It also added urgency to negotiations among European policy makers as to how they deal with banking collapses.

“The precarious global environment means the weakest links in Europe are now falling,” said Mamoun Tazi, an analyst at MF Global Securities Ltd. in London. “If banks continue not to lend to each other we'll see more failures.”

European equities and U.S. stock-index futures fell today. Euro-area economic confidence dropped this month to the lowest since the aftermath of the Sept. 11 attacks amid concern that the U.S. plan will fail to stem the crisis. The euro and pound also slid against the dollar.

The European Central Bank said today it will make additional funds available to banks through the end of the year in “special” auctions to ease tensions on euro-region money markets.

Tighter Credit

Tightening credit is casting a pall over the European economy with U.K. growth the weakest since the early 1990s and the 15-nation euro-area on the edge of its first recession. The risk is of a spiral in which the credit crisis and the economy begin to feed off each other, resulting in costlier borrowing and even weaker expansion.

“The extreme dislocations in European money markets are both a symptom and a source of serious stress in the financial sector, exacerbated by the rapidly deteriorating growth environment,” said Marco Annunziata, chief economist at Unicredit MIB in London.

To head off the collapse of its biggest bank, Belgium agreed to buy 49 percent of Fortis's Belgian banking unit for 4.7 billion euros, while the Netherlands will pay 4 billion euros for a similar stake in the Dutch business, the governments said in a statement late yesterday. Luxembourg will provide a 2.5 billion-euro loan convertible into 49 percent of Fortis's banking division in that country.

My view - I last did a detailed analysis of European Financials on [September 17th](#). That was when many companies were making new lows and the sector was underperforming relative to the DJ Europe Stoxx 600. Since then the [Financial](#) sector particularly has continued to underperform and a number of companies have run into liquidity problems.

Here is a [list](#) of all the companies which made new highs or lows in the last 5 days. We see that the number making new lows is quite extensive considering the universe is only 144 stocks. A number continue to make new 'All Time lows' which is a source of investor concern. This is particularly the case as so

many of these companies may need to raise capital, further diluting shareholder equity. As this crisis continues, the potential for a concerted effort by financial companies, European governments and the ECB to overcome the liquidity impasse is growing.

Email of the day (1) - on Chris Martenson's "The Crash Course"

"I recently viewed in its entirety "[The Crash Course](#)" by Chris Martenson. I know you mentioned it and recommended it in a previous commentary and also said you would comment on it further, but further comment by you never materialised (as far as I can tell). I don't know if you have had time to view it entirely but I certainly would strongly recommend it. It is a work of considerable significance I feel, and world events unfolding now regarding finance etc. are also very relevant I think in defining and confirming some major turning points in our collective history (and of course people never properly realise the significance of them at the time they are occurring). I wonder what "the crash course" conclusions would mean in respect of the major Fullermoney themes? I would guess they would lend further weight to your themes."

My comment - Thank you for reminding us of this educational site. I listened to the concluding parts of The Crash Course this afternoon and found Chapter 16: Fuzzy Numbers, especially compelling. The extent to which inflation is under reported and GDP over estimated is a truly worrying phenomenon and is something we have highlighted at Fullermoney on a number of occasions.

In answer to your question, yes, many of the points raised in the Crash Course are in sympathy with some of our long-term themes. [Gold](#) in particular should do well as appreciation for how fiat currencies are mismanaged and inflation under reported gain ground. I find the Crash Course to be very educational but one should also remember that it contains some extreme views.

Astaire Research: The India Report - Thanks to Deepak Lalwani for his interesting [report](#). Here is a section on the Rupee

In a move to stem the depreciation of the Indian Rupee, which is down 18% YTD vs an appreciation of 11% in 2007, the Government amended a rule on repatriation of funds raised abroad for infrastructure projects. A limit of US\$100m was imposed last year to slow down surging foreign exchange reserves. With falling reserves and a sharply depreciating currency this year, there is now a need to increase reserves. So, the limit has been raised from US\$100m to US\$500m. The Finance Ministry said the rules required borrowings in excess of US\$100m to have a minimum maturity of 7 years.

My view - The [Rupee](#) has fallen significantly over the last few months as investors sold Indian investments and shorted the currency. It looks like it will take more than the widening of some quite strict investment parameters to turn this short-term trend. The Dollar is looking overextended as it approaches

prior resistance, but would need to sustain a move below R45.25 to question scope for some further upside.

The Indian Rupee is not the only currency falling against the Dollar in the current environment. The Korean Won has fallen considerably over the last few months and hit a new low today. A sustained move below 1125 [Won](#) would be needed to question scope for some further Dollar strength. The Dollar also found support against the [Singapore Dollar](#) over the last few days and would need to sustain a move below S\$1.4060 to question scope for some further upside. Importantly, the US Dollar's slide against the [Chinese Yuan](#) stalled in mid-July near ¥6.8. It would need to sustain a move below that level to question scope for at least a test of the ¥6.9 level. A move above that area would mark the first higher high for the Dollar against the Yuan in more than 15 years. Such a move would be a clear indication of at least a pause in Beijing's policy of allowing the Yuan to appreciate.

Email of the day (2) - on the plan for Canada to cease exporting oil to countries not matching its efforts to reduce carbon emissions:

"This is a disturbing trend that Harper the PM has announced. Energy resources are the domain of provinces in Canada, not the federal government. The PM, like all governments, is trying through the backdoor to impose a tax at the wellhead on exports, through climate change, and make certain all the oil goes south of the border (if you may) rather than to where demand is with an export tax. Behind the scenes pressure no doubt. Also allows federal coffers to interfere and dictate policy in the tar sands. As David said when this lot crushed the income trust tax loopholes 2 years ago "Governments sure love your money." I am surprised nobody in Calgary has complained at all over this weekend."

My comment - Thank you for this measured opinion and for this [story](#) from Reuters. Here is a section:

Harper announced the export-ban plan on Friday, ahead of Canada's October 14 general election. Asked by reporters whether it could affect future exports of bitumen oil to Asia, he replied: "Well, it could, it absolutely could."

Enbridge's planned C\$4.2 billion (\$4.1 billion) Gateway line would take 400,000 barrels per day of oil sands crude to a port at Kitimat on the British Columbia coast, where it would be loaded on to tankers and shipped across the Pacific.

Enbridge could not be immediately reached for comment.

Canada's oil sands are the largest oil reserves outside of Saudi Arabia. Producers in the region plan to spend C\$100 billion exploiting the resource and output is expected to nearly triple to 2.8 million barrels a day by 2015.

Refineries in the United States take nearly all of Canada's exports of raw bitumen. Federal Environment Minister John Baird told reporters following

Harper's speech that the proposed ban was unlikely to affect bitumen shipments to U.S. customers since both presidential candidates have pledged to cut greenhouse gas emissions.

The Harper government plans to cut Canadian greenhouse gas emissions by 20 percent of 2007 levels by 2020.

With an election only two weeks away, some jockeying around the climate issue is not unexpected. What investors need to be wary of is government intervention which could stop Canadian oil sands companies from getting the best possible price for their products. Competition for access to resources remains fierce and is only likely to get more aggressive as time goes by

Email of the day (3) - on the definition of short-term, medium-term and long-term:

"As always, the audios and commentary are an oasis of reasoning in turbulent times. Can you indicate the time outlook you have in mind when referring to short, medium, and long term periods in relation to trends and possibilities?"

My comment - Thank you for your praise and what I suspect is a question many will have asked themselves at one point or another. In Fullermoney parlance: short-term is anything from a few days to a couple of months. Medium-term is anything from a few months to seldom more than two-years. Long-term is anything longer than that, but is usually used in reference to our long-term secular themes.

Email of the day (4) - on additions to the Chart Library:

"Could you please add following Aus. shares?"

["APD](#)
[BCSCA](#)
[ELI](#)
[LSTO](#)"

My comment - Thank you for these interesting suggestions which have now been added to the Chart Library.

Last week's signups for the Free (Abbreviated) Comment of the Day - For the week of September 21st new signups, including subscribers and pre-subscribers, live in the following countries or regions: Australia, Canada, Germany, Ireland, Malaysia, Singapore, Sweden, Taiwan, the UK and the USA - 10 in total. In descending order, which topped the list in terms of the last week's new signups? It was Australia, the USA and the UK.

Thousands of people around the world receive Fullermoney's Free (Abbreviated) Comment of the Day, and their numbers steadily increase. Why

do so many sign up? It is primarily due to word of mouth or word of press mention, from people who like Fullermoney's global perspective and our Empowerment Through Knowledge theme. Incidentally, on receiving our free daily email, you will not be contacted or solicited with advertisements and other marketing material. No one else will have access to your email address. We respect your privacy.

Tuesday 30th September 2008

[Sweden's] Lessons for the U.S. - This is a topical [article](#) by Carl Bildt, Sweden's former prime minister, published by the International Herald Tribune. Here is the conclusion:

What is clear in both cases is that a rescue plan is not possible without achieving bipartisan consensus, which is indispensable for regaining confidence in the markets.

We were able to achieve this in Sweden. Consensus lasted throughout the whole process of restructuring the banking system. We never faced demands for going back to the heavy regulated markets of the past or for permanent state involvement in managing the financial sector. On the contrary, due to an organized and well-managed restructuring, it was possible to preserve the advantages of the deregulation of the 1980s, and, when the market conditions made it possible, privatize the banks as well as the credit stocks.

It is perfectly understandable that the strong measures the U.S. authorities are planning to deal with the crisis would arouse many questions. My experience is that the chances are very good for a positive outcome if the political system is capable of acting when action is needed.

My view - Democracy in government is frequently messy and even shambolic, as we saw in the USA yesterday, when politics unexpectedly blocked agreement on the bank-rescue package six weeks before an important election. This was obviously a shock for stock markets, contributing to the second wave of capitulation selling this month and the sixth since we first saw evidence of the west's credit crisis in July and August 2007.

These can be seen on most stock market indices, including the [DJ World Stock Index](#), the [MSCI World Free Index](#), [MSCI World ex US Index](#), [MSCI World ex Japan](#) and the [MSCI Emerging Markets Index](#), to mention a few. These look quite similar; the declines have been significant and very persistent since late May. We have also seen some acceleration recently, which is an ending characteristic of unspecified duration, as we say at The Chart Seminar.

Note particularly overextensions relative to the 200-day moving averages (MAs). During the previous bull market of approximately four years, overextensions were followed by reversions to the mean, represented by the MAs. What we see today are deeply oversold technical conditions on these indices. Among individual stock markets, which are worth reviewing in the Library, overextensions relative to the MAs vary considerably but most

indicate scope for technical rallies between now and yearend, which could surprise on the upside.

How can this be when banks are collapsing in the USA and Europe during 'the worst financial crisis since the Great Depression'? It may be the worst financial crisis since then for some western countries, but not the rest of the world. Moreover, governments are crisis oriented, as I have said before. They see warning signs for growth in their slumping stock markets, and rightly so. Consequently, we are now seeing simultaneous and in some instances coordinated policies to stem the crises.

In other words, as part of these programmes central banks are now targeting their stock markets, many of which have fallen a long way. We are entering a seasonally bullish period for equities. Yes, stock market indices are in overall downward trends and you can see big overhead top formations on the charts above. However the trends are also at least temporarily overextended and sentiment is at a bearish extreme. Therefore the next significant move is likely to be a reversion to the mean, in the form of technical rallies towards the MAs.

Email of the day (1) - On governance:

"First, welcome back from holiday to this holocaust. On your theme of investing in countries with good governance, I think we have been shown that the US does not have "good governance." I cannot say this more nicely, but Congress is pandering to the naive and ignorant American public who have no idea of what rejection of the Fed/Treasury plan means, aside from the political rhetoric in this election year. As I mentioned to you last year, countries like China with savvy economic leadership, albeit non-democratic and undesirable for other reasons, would run rings around "democracies" like the US (who are really run by lobbyists and their clients, the elected officials). This whole ugly picture is now playing out in front of our eyes and it is a disgrace to the loftier ideals of our Constitution."

My comment - Thank you and naturally I agree with what you say about governance. However I would not be so hard on the American public. As I see it, part of the USA's governance problem has been a 'me first' entitlement mentality among CEOs, not least at banks. The folks know this and if asked by a pollster: 'Do you favour a bailout of Wall Street' - of course they will say no. If that frightens a few politicians into producing a more equitable and sensible rescue package, we will all be better off.

Incidentally, I heard yesterday that one politician had objected to limits on entitlements for the CEO's of rescued firms, on the basis that it would 'prevent them from attracting the brightest and best'. Since those were the people who got us into this mess, I say, bring on the dunderheaded incompetents!

Here are a couple of articles on the [rescue package](#).

Email of the day (2) - On market distractions while on holiday:

"David, is there a chart you can post showing the state of your relationships with your nearest & dearest over the last week or so while you were away? How on earth did you focus on leisure and downtime while "Rome burned"?"

My comment - I felt a bit guilty in going away at a stressful time but soon got over it, knowing that Fullermoney was in Eoin's hands. Also, I took a laptop so that I could keep an eye on events, briefly. Spending a week with 14 relatives spanning 3 generations was both a tonic and a delight. Our primary relationships are so vitally important, not least in terms of maintaining perspective and alleviating stress.

On this latter subject, I share these wise words from my sister, who has had more than her share of concerns due to a son's two operations for brain cancer in the last year (fortunately, he was not only with us but looking healthy, laughing, playing tennis and swimming):

"I am reminded, often, of the damage that chronic worry brings, or simply fretting; I also believe it is possible to do a good deal to limit its hold on each moment of life. I think we all did so."

Additional Commentary by Eoin Treacy

ICICI Says Speculation on Its Finances Are 'Baseless' - [This article](#) by Chitra Somayaji and M.C. Govardhana Rangan for Bloomberg covers the speculation that ICICI Bank may succumb to the problems experienced by banks in the USA and Europe. Here it is in full:

ICICI Bank Ltd., the Indian lender that's reported the biggest losses on overseas investments, said speculation about its financial strength is "baseless and malicious" after the stock slumped 26 percent this month.

The bank, based in Mumbai, almost doubled its capital after raising 200 billion rupees (\$4.25 billion) in June 2007, Chief Executive Officer K.V. Kamath said in an e-mailed statement today. Its capital adequacy ratio was 13.4 percent as of June 30, more than the minimum 9 percent required by regulators, he said.

ICICI was the best-performing benchmark stock after Kamath and India's central bank reassured investors that the nation's second-largest bank has sufficient cash. The stock fell to a two-year low yesterday on concern the global financial meltdown would result in losses on overseas investments and constrain capital.

"ICICI Bank has sufficient liquidity, including in its current account with the Reserve Bank of India, to meet the requirements of its depositors," the central bank said in a statement on its Web site today. "The Reserve Bank of India is monitoring the developments and has arranged to provide adequate cash to ICICI Bank to meet the demands of its customers."

Reports of rumors about ICICI's financial positions have led some depositors

to withdraw cash from the bank in some locations, the Reserve Bank of India said in the statement.

'No Challenge'

"The absorption of the impact of current market conditions on investment portfolio valuations will not pose any challenge to ICICI Bank's capital position," Kamath said in the statement.

The bank on Sept. 17 denied rumors that its senior managers were selling shares.

The bank may have to set aside an additional \$28 million for potential losses on the 57 million euros (\$82 million) in Lehman Brothers Holdings Inc. debt held by its U.K. unit, according to a Sept. 16 statement. The bank recorded \$100 million in marked-to-market losses for the fourth quarter ended March 31 on its overseas investments. For the fiscal year, the writedowns totaled \$170 million.

The world's largest banks have recorded losses of more than \$590 billion since the collapse of the U.S. subprime-mortgage market led to a global credit contraction.

ICICI shares rose 4.7 percent, making it the second-best performer on the Bombay Stock Exchange's Bankex index, to 516.7 rupees in Mumbai trading at 12:58 9.m. local time.

My view - [ICICI Bank](#) has a 28.29% weighting in the Bombay Banks Index and is the share where the bulk of concern surrounding India's exposure to the credit crisis is centred. It remains in a relatively consistent downtrend and broke downwards again yesterday. However, it rallied well today, following the RBI's statement and would need to sustain a move below R400 to question scope for some further higher to lateral ranging. Although ICICI is the largest company in the [Bombay Banks](#) Index, the sector continues to outperform both the [Nifty](#) and the [Bombay 500](#) Index. It found support above the 2006 lows in July and would need to sustain a move below 1.45 to question scope for further upside against the Nifty. Against the Bombay500, the pertinent level is 1.12.

The [Nifty](#) is also showing impressive relative strength when compared to Wall Street and its neighbours. The Indian equity market is unlikely to be able to sustain a significant upside break from the current trading range as long as Wall Street remains under such pressure. However, it has so far survived the recent waves of climactic activity fairly well and should benefit from any improvement in sentiment.

Irish Financials Jump as Government Guarantees Debt - This [article](#) by Ian Guider and Dara Doyle for Bloomberg covers the move by Ireland's Finance minister to insure all deposits at Irish banks. Here is a section:

Anglo Irish Bank Corp. Plc led a surge in Irish financial stocks after the

government guaranteed the deposits and borrowings of six lenders to calm investors after banks lost a quarter of their value yesterday.

The ISEF Index of financial shares surged as much as 25 percent, and was up 14 percent at 10:15 a.m. in Dublin, as Anglo Irish Bank jumped as much as 49 percent. Ireland's government said today it will guarantee all deposits, covered bonds, senior debt and dated subordinated debt of four publicly traded banks and two building societies.

The government was guaranteeing liabilities of about 400 billion euros (\$575 billion), Finance Minister Brian Lenihan said today at a news conference in Dublin. The Irish economy is worth about 190 billion euros.

“This is a massive step by the government to alleviate financial stress in the domestic system,” Eamonn Hughes, head of research with Goodbody Stockbrokers, wrote in a note. “This presumably puts the Irish banks in better shape to seek funding compared with other non-guaranteed banks in international capital markets.”

Ireland's decision follows action by governments across the world to prevent more bank failures amid the freeze in credit markets. Belgium, the Netherlands and Luxembourg have pumped 11.2 billion euros to rescue Fortis, while Citigroup Inc. will pay about \$2.16 billion for the banking operations of Wachovia Corp. after shares of the North Carolina lender collapsed.

My view - This is a bold move which helps to offset fears that Irish banks might have a run on deposits as has been seen in other countries. Consumers now have the backing of the government so fears that they will lose their money should dissipate. Of course, it could exacerbate the plight of non-Irish banks operating in that market as they are now at a competitive disadvantage.

The [Irish Financials Index](#) has so far given up 78% of its peak value. The Index broke downwards yesterday to make a new low but recouped much of that loss today. It needs to break the progression of lower rally highs to question the integrity of the downtrend. However in the short-term the upside can probably be given the benefit of the doubt.

Brown, Merkel May Be Pushed Into Paulson-Type Bailout - [This article](#) by Simon Kennedy for Bloomberg covers the deterioration of the banking sector in Europe over the last few days. Here is a section:

European politicians are discovering what cometh after pride. A week after lambasting the U.S. for allowing its banks to run out of money and after resisting calls to set up their own rescue mechanisms, leaders across Europe yesterday bailed out banks from Belgium, Germany and the U.K. Dexia SA today received aid from France and Belgium, while Ireland's government said it would guarantee bank deposits and debt for two years.

German Chancellor Angela Merkel and U.K. Prime Minister Gordon Brown

may be forced to advocate a comprehensive approach of the kind U.S. Treasury Secretary Henry Paulson and Federal Reserve Chairman Ben S. Bernanke are urging Congress to pass. The two Americans turned to a broad package after early attempts to deal with each financial-institution crisis individually didn't work.

“The gods of the markets are punishing those who showed hubris,” said Marc Chandler, global head of currency strategy at Brown Brothers Harriman & Co. in New York. “Europe has been bashing the U.S., but it's realizing now it has its own problems.”

Paulson encountered difficulties yesterday when the House of Representatives voted down the \$700-billion plan by a 228 to 205 margin. The failure to pass the legislation sent the Standard & Poor's 500 Index to its biggest decline since the 1987 crash. Paulson said he will work with Congress to salvage the proposal. Lawmakers may take up the measure again this week, House Majority Leader Steny Hoyer said.

‘No Choice’

“The Americans have no choice. We must have a comprehensive solution,” European Central Bank council member Christian Noyer said on RTL radio today. “I'm counting on a solution coming very soon.”

Yesterday, the British Treasury seized Bradford & Bingley Plc, the U.K.'s biggest lender to landlords, hours after the Netherlands, Belgium and Luxembourg agreed to inject 11.2 billion euros (\$16.1 billion) into Fortis, Belgium's biggest financial-services firm, in return for minority stakes. Germany guaranteed a 35 billion-euro loan to property lender Hypo Real Estate Holding AG.

Investors will dump shares of the continent's banks and keep borrowing costs elevated if leaders don't coordinate a solution, Lena Komileva, an economist at Tullett Prebon Plc, the second-biggest broker of transactions between banks, said in London.

‘Clear Message’

“The U.S. experience should send a clear message to Europe that you need a contingency plan,” said Komileva. “The fact there still isn't one will focus investors on the vulnerability of Europe's economy and financial system.”

French President Nicolas Sarkozy pledged yesterday to support that country's banks, paving the way for the 6.4 billion euro state-backed rescue for Dexia, the world's biggest lender to local governments. He met today with executives from banks and insurers and said he will announce measures next week to address the crisis. Peer Steinbrueck, Merkel's finance minister, yesterday called his country's package “the biggest bank bailout in German history.”

When Paulson asked European leaders on Sept. 21 to “do similar things” as he was with the bailout package, the response wasn't enthusiastic.

Steinbrueck said the U.S. would lose its status as the “superpower of the

global financial system" and that the "Anglo-Saxon" model of banking had "an exaggerated fixation on returns." Sarkozy decried the "mad system" that sparked the meltdown in New York on Sept. 23. And U.K. Chancellor of the Exchequer Alistair Darling said the situation required "not a knee-jerk reaction, but a measured response."

My view - The [DJ Stoxx Banks](#) found support today near 250 and rallied. It would need to sustain a move below that level to question potential for some further ranging. A move above 300 would be needed to suggest that the bulls have regained the upper hand over the medium-term.

The [Euro](#) fell aggressively against the Dollar as expectations of ECB rate cuts and more bailouts are priced in. The Euro has now encountered resistance well shy of the overhead trading range and a sustained move above \$1.50 would be needed to question scope for further downside.

Today's interesting charts - Many indices rallied well from their intraday lows today and they can all be found in the [Chart Library](#).

Dollar Index - [testing](#) the highs near [80](#) and needs to sustain a move below the 76 area to question scope for an upside break.

New Zealand - [testing](#) the mid-July lows and would need to sustain a move below 3000 to question potential for some further higher to lateral ranging.

Canada - broke below the [psychological](#) 12,000 yesterday but recouped part of the loss today. It needs to sustain a move above 13,000 to break the progression of lower rally highs and question potential for some additional downside.

Online Journal: Tragedy in the making in Washington and on Wall Street: The Canadian solution - Thanks to a subscriber for this interesting [article](#) by Rodrigue Tremblay covering his alternative to the rescue plan currently being proposed to Congress. It is posted without further comment but here is a section:

Since time is of the essence, Congress could approve the creation of a U.S Government Banking Restructuring Trust, designed to exist for a 12-year maximum period, that is, until 2020. Such a government trust could buy back, at a fair market value (including a substantial discount to reflect poor liquidity and poor marketability), illiquid but still solvent mortgage-backed securities, held by banks or money market funds.

Simultaneously, the government trust would have the power to reissue mortgage-backed debentures with a maturity of nine years or less and carrying interest financed by the underlying mortgages thus acquired, and in an amount large enough to cover at least the initial cost of acquisition. The Fed and its 12 regional banks, plus Fannie Mae and Freddie Mac, could play an important role in creating a liquid secondary market for such government-

backed securities. Because of this reissuance feature, the \$700 billion guarantee initially proposed by Sec. Henry Paulson could be reduced, possibly to a more palatable level of \$250 billion.

Such an operation would relieve the U.S. banking system from short-term mortgage-backed securities that are presently de facto frozen, because there is no market for them. It would also allow American savers and investors to include in their IRAs or 401(k) plans safe and profitable investments. Moreover, it would provide capital to the mortgage market and help turn the housing slump around.

And, what's more, such a debt restructuring operation need not cost the government and American taxpayers a single penny, in the end. To the contrary, the program can be structured in such a way as to generate a fair return on the government's initial investment.

Simultaneously, a regulatory ban on the issuance of any new securitized mortgage-backed paper could be issued. The same could apply also to the dangerous practice of elevating the credit rating of certain bonds or debentures through reliance upon the credit-default (insurance) market. These were the two main corrosive "innovations" which have resulted in the present financial mess. Moreover, such a restructuring plan could be kept simple and totally transparent.

Wednesday 1st October 2008

GE Raises \$15 Billion; Buffett Gets Preferred Stake - [This is the story that lent some support to Wall Street today. Here is the opening:](#)

General Electric Co. said investor Warren Buffett's Berkshire Hathaway Inc. will buy \$3 billion in preferred shares and that GE plans to offer \$12 billion in common stock, bolstering its cash cushion in volatile markets.

Buffett's stake will pay an annual 10 percent dividend and is callable after three years at a 10 percent premium, Fairfield, Connecticut-based GE said today in a statement. The 78-year-old investor also gets warrants to buy \$3 billion of common stock with a strike price of \$22.25 a share for five years.

The offering and stake accelerates the plan Chief Executive Officer Jeffrey Immelt announced last week to improve finances at GE, trying to ease investors who have reduced GE's market value by more than 40 percent in a year. The vote of confidence from Buffett, who struck a similar deal with Goldman Sachs Group Inc. last month, may further burnish GE, which already has maintained top-level AAA credit ratings through the global crisis.

My view - [The market's response was muted, partly because this is not a deal that is available to many of us.](#)

[For my medium-term outlook on the stock market, see yesterday's Comment and / or listen to the Audios.](#)

Senate Sets Bank-Rescue Vote, House May Act Friday - [Here is the latest update](#) on the rescue package, which I expect to be passed by both the Senate and Congress.

Email of the day (1) - [On survey feedback](#):

"Appeal: Over approx 15 years, I have found that David's observations are nearly always accurate in terms of a Macro picture. This helps me keep things in perspective and pre-conditioned to market directions. I enjoy the articles/comments which are featured by other subscribers or contacts and then to read David's response. Much of this material can be a revelation to the unaware as the content is often discarded or overlooked by the media which too often pushes an incumbent political agenda (e.g. Global Warming and the insinuation that man is not only responsible, but can FIX it, albeit with more taxes.

"Other: With the chaos currently plaguing world financial markets, it astonishes me that many in our communities are still unaware of how they are being affected - in particular, the elderly who don't understand why their retirement savings are being decimated and the younger generation who still think the world owes them a job and a living. Currently, I feel the general mood is one of lost hope and mistrust which could easily turn into hostility at those who are meant to protect communities.

"OECD Governments have failed miserably during what has been an exceptional boom period while those in power are still being lavishly rewarded for presiding over massive failures. These are conditions that produce revolutions as we have seen throughout history. People are starting to get very annoyed as they wake up to the fact that Rome is burning while the Leaders have been fiddling with their constituent's lives.

"The internet has brought us all closer together than ever before in history and Fullermoney plays an important part in the sharing of the knowledge necessary to find a solution."

My comment - [Many thanks for these generous and thoughtful comments. In this dauntingly challenging business, anything that I get right is mainly due to observing important trend changes on the charts, and connecting them to other events or possibilities, which all of us then flesh out with relevant articles and reports. And when I get things wrong, it is usually because I resist the evidence of trend change, due to a failure of either observation, understanding or objectivity.](#)

[I do know that we empower each other. Experience, combined with a passion for discovery and understanding contribute enormously. However little in my experience over more than four decades in this business has prepared me for the shocking meltdown in western financial companies that we have witnessed. However for many years wise heads have been pointing out the growing risks created by the ballooning use of leverage and derivatives. The](#)

idea that one can make ever greater profits, with ever increasing leverage, because all the risk is theoretically passed on to someone else, is totally daft. And the perpetrators knew it. They just wanted to make a quick fortune, get out before the game blew up, and 'let the devil take the hindmost'.

As investors, I maintain that we should remain wary of complicated schemes and elaborate products, which at minimum are priced for the vendor rather than the customer.

I agree with many of the above email's other observations and views.

Black Swan Capital's Currency Currents - My thanks to Jack Crooks of Black Swan Capital for his latest [summary](#) of influences on trends for currencies and also some other markets. Here is a brief opening sample:

Strong dollar simple logic we think!

We are guessing the "momentous historical development" that launches the US dollar into a new multi-year bull trend was the credit crunch. It is a game changer on risk appetite and correlation of every asset class (but the dollar) going up at the same time, as the dollar credit was the driver. We have marked the Credit Crunch on our long-term dollar - gold chart next page:

My view - I think investors will be extremely interested in Jack Crooks' historic and annotated overlay chart of the US Dollar Index and Gold, referred to above.

The USD's rebound since July - shown here on these charts of the US Dollar Index ([historic](#), [monthly](#), [weekly](#) & [daily](#)) - is one of the more important, albeit lesser discussed financial events of the year.

As subscribers may recall, I have many reservations about the long-term sustainability of this new trend. However, I have also maintained from the beginning of this move that maintained breakouts and clear trend changes on these charts above, or any others that we may observe, are more important than theories as to why it should not be happening. The trend will always be the sole determinant of our investment and trading success in any market.

Currently, it looks as if the US Dollar Index is consolidating initial gains above this year's earlier trading range. We can all see some historic and extremely interesting psychological and lateral resistance above 80, but as Eoin said yesterday, we should give the new uptrend the benefit of the doubt, provided it continues to hold above the recent reaction low near 76. Although I should also add that a move below that level would question rather than completely invalidate the USD's recovery hypothesis.

Meanwhile, a firmer USD removes one of the main fears and risks for the global economy, as I have said before. Arguably, had the dollar collapsed in July rather than rallying up out of its trading range, this would have been an

even bigger problem for the global economy than the west's credit crisis. After all, the greenback is still the world's main reserve currency.

Consequently, if the current recovery is not only maintained but also extended, this would have many implications for other markets. For instance, it has already removed upward pressure on the euro, which had become the default reserve currency as people previously fled the dollar. This provides some welcome respite for Euroland's exporters, and those of other countries which saw their currencies soar, albeit at the expense of US multinationals if the USD's recovery trend is extended in the months head.

Previously, a weak USD was a powerful tailwind behind commodity price rises, in addition to Fullermoney's Supply Inelasticity Meets Rising Demand theme during the synchronised global economic expansion. Now that the economic expansion has stalled, and with the USD also rallying, inflationary pressures are clearly in retreat.

This is good news for central banks because they can shift monetary policy away from fighting inflation and towards supporting economic growth. This process has already commenced in many countries. I expect Asian emerging markets to be among the main beneficiaries of ebbing inflation, not least because they were caught out buy expensive and economically unjustifiable subsidies. A stronger USD is also a clear headwind for gold, as we can see from Jack Crooks' chart above (this price action can be recreated in the Chart Library).

I mentioned in yesterday's Audio that fear was the main driver behind gold's recent rally from its September 11th low at \$736.70. While favouring gold as an alternative long-term investment, I have repeatedly mentioned that it is best purchased following setbacks and that it was generally a good idea to take partial profits, or at least use trailing stops during accelerating advances.

Fear, sometimes referred to as the Armageddon story, is my least favourite reason for buying gold because panicky extremes in sentiment are seldom sustainable beyond the short term. If we could chart fear, I think we would be looking at an accelerated peak of at least near-term significance.

Early in this decade, gold was underowned and therefore dirt cheap against other assets, so I loved it. The Dow/Gold Ratio ([historic](#) & [monthly](#)) has been cited by Fullermoney on many occasions (see *Comment of the Day Archive and hard copy PDFs from earlier years*). Ever since the accelerated top with right-hand extension (as taught at The Chart Seminar) was completed in mid-2001, I have been looking for a move to 10 by the Dow/Gold Ratio, with a possible overshoot to 5. I see no reason to change this view. However, as the trend shows, we have already seen the best part of this long-term move. This does not mean that gold has peaked beyond the medium-term, but it does indicate that it is less of a bargain against the Dow, not to mention emerging markets which I expect to lead the next upswing. Gold's price action is also likely to remain volatile.

Email of the day (2) - [On charts added to the Library](#):

"Dear David, I honestly don't know where you find the time and energy to deal with the myriad of requests your must receive each day.

"I was very pleasantly surprised to see the charts I requested in the Library this morning. You are a marvel.

"Keep up the great work."

My comment - [Thanks for the inspirational email. All credit for this goes to Eoin, who continues to develop the Fullermoney Chart Library to our specifications \(this includes the Collective of subscribers' preferences, where feasible\), with the help of our IT department. The Library will always be a work in progress, and therefore a valuable resource for those who know how to use it.](#)

Additional Commentary by Eoin Treacy

How is the Nasdaq-100 performing relative to the S&P? - [The Nasdaq](#) continues to plot the progression of [rising lows](#), relative to the S&P, evident from mid 2006. The ratio peaked near the 1.50 level and is currently retracing part of its impressive advance. An upward dynamic would now be needed to check momentum beyond a brief pause, while a sustained move below 1.30 would question the integrity of the more than 2-year move.

In absolute terms, the [Index](#) has accelerated lower over the last month and is looking overextended relative to its 200-day moving average. A sustained move below 1500 would now be needed to question scope for a rebound from near current levels.

Trading in many shares has been erratic over the last few weeks. [Oracle](#) and [Gilead Sciences](#) are both good examples of where increased volatility has manifested itself. Both have seen aggressive stabs to the downside over the last two weeks, but these moves were not sustained. Oracle plunged on an intraday basis but the move was not sustained. It has since rebounded into the overhead range and would need to sustain a move below \$18 to question scope for some further upside.

[Gilead Science](#) had one of the more consistent trends over the last five years, but this reaction has broken the progression of higher lows. It has also had extreme downward reactions which were not sustained. It needs to sustain a push back above \$50 to suggest that the trend may be reasserted. While the action over the last few days has been positive, this has become a more high risk vehicle.

[FLIR Systems](#) accelerated to its high near \$45 in July and the advance was capped with a large weekly key reversal. The share found support near \$32 in

mid-September and is currently rebounding. A sustained move below the recent lows would be needed to question scope for some additional higher to lateral ranging.

[Stericycle](#) broke upwards from its more than year-long range three weeks ago but was unable to hold the gain. This type of action makes a test of the lower side of the range near \$50 more likely. A sustained move above \$64 is now needed to question scope for some additional downside.

[Express Scripts](#) has been consolidating its impressive 2007 gains for most of the year. It also had a stab to the downside this week, but has rallied back into the short-term range and continues to test the highs. It would need to sustain a move below \$65 to question potential for an upside break.

[Genzyme](#) has been rangebound for much of the last two years but is now testing the highs. A sustained move below \$75 would be needed to question scope for some additional upside.

This [filter](#) of the companies making new highs and lows in the last 5-days shows that there are none making new 12-month or All Time highs. The aggressive downward reactions seen in the last couple of weeks might be a sign of forced or panic selling but upward dynamics for the broader Index are needed to suggest demand is returning generally. Considering the extent of the overextension relative to the 200-day moving average, this is probably not a good time to get more bearish of this sector.

Email of the day - on the Overnight Index Spread and other important spreads:

"Could you please add to the library the [Libor-OIS](#) spread (USSOC:IND) which is a measure of cash scarcity in the credit markets?"

My comment - Thank you for this suggestion, which has now been added to the Chart Library. The Spread has contracted considerably over the last months and broke down again in mid September. A sustained move above 2% would be needed to question scope for some further downside.

The US\$ [AA Banks](#) spread over the 10-yr yield remains in an uptrend and recently posted a new high. A sustained move below 2.20% would be needed to break the progression of rising major reaction lows.

US\$ 3-mth LIBOR over the 3-mth T-Bill ([TED spread](#)) continues to post new highs and although it looks overextended, a sustained move below 2.5% would be needed to question scope some additional upside.

Federal 90-day Non-Financial [Commercial Paper](#) over the 3-mth T-Bill Yield peaked near 2% and has almost retraced half its advance. A sustained move above 1.75% would be needed to question scope for some additional downside.

EUR 3-mth [LIBOR](#) over EUR 3-mth yields continues to accelerate higher. The first downward dynamic is likely to mark a high of medium-term significance but in the short-term the upside can still be given the benefit of the doubt.

EUR 10yr [Swap Spreads](#) remain in a well defined uptrend but is currently overextended. Following the recent peak near 80 at least a partial retracement is to be expected, but a sustained move below 40 would be needed to break the progression of rising lows.

The signals from this diverse array of spreads are no longer showing the unanimity present less than two weeks ago. This might well be an indication that credit conditions are close to a trough. However, more of these spreads will need to contract before we will be able to conclude that conditions are improving beyond a short-term easing.

Baltic Dry Index Has Biggest Monthly, Quarterly Drops on Record - [This article by Alistair Holloway covers the current sharp decline in shipping prices. Here it is in full:](#)

The Baltic Dry Index, a measure of shipping costs for commodities, had its biggest monthly and quarterly drops on record as Chinese holidays curbed chartering and raw-material demand from the country's steelmakers weakened.

The index tracking transport costs on international trade routes fell 287 points, or 8.2 percent, to 3,217 points, according to the Baltic Exchange in London. That's a 66 percent drop for the quarter, a 53 percent monthly slide and the lowest since July 24, 2006.

“It's definitely been the effect of lower activity during the Olympics and the holidays now,” Rikard Vabo, an analyst with Oslo shipbroker Fearnley Fonds ASA, said in an interview today. Chinese steel demand is weakening as property prices fall and builders' focus shifts away from luxury housing that is more steel-intensive, he said.

China's urban housing demand has dropped since minimum down-payment requirements and some mortgage rates rose last year.

Property prices climbed at the slowest pace in 18 months during August, the National Development and Reform Commission said Sept. 16. Some steel mills, forced to shut for the Beijing Olympics and Paralympics, have not reopened. China's financial markets are shut through Oct. 5 for National Day holidays.

Falling freight rates dragged down China Cosco Holdings Co., the world's largest operator of iron-ore and coal ships. The shares fell a sixth day in Hong Kong trading, closing 3.2 percent lower. They earlier plunged as much as 13 percent.

Rates for capesize vessels for hauling coal and iron ore fell 5.9 percent to

\$41,159 a day, a 65 percent decline for September. Investors bet they will fall to about an average of \$39,813 in the fourth quarter, forward freight agreement data from Oslo-based broker Imarex NOS ASA showed.

Freight Prices

As recently as Sept. 5, investors expected the rates to jump 50 percent in the last three months of the year. FFAs are used to bet on future freight prices.

Rents of smaller panamax vessels dropped 19 percent to \$19,294 a day. That's the first drop below \$20,000 since June, 2006. FFAs showed investors expect an average of \$23,500 in the fourth quarter.

FFA trading rose to a record last week as spot, or immediate market chartering rates, dropped, according to London-based broker Freight Investor Services Ltd. Volumes reached 85,693 lots through Sept. 26, strategic director Michael Gaylard said.

One lot equals a day's ship-rental costs or 1,000 tons of cargo. The previous record was 85,093 lots in the week ended Jan. 18. The volume is derived from trades notified to the Baltic Exchange in London, Gaylard said.

My view - The Baltic [Capesize](#) Index and Baltic [Dry](#) Index continue to accelerate lower. There have been a number of reasons proposed for this from slowing global economy to the closing of factories for the Olympics. What the charts tell is that these indices are becoming increasingly overextended. They have a history of exaggerated moves both to the upside and the downside. In the past, the first clear upward dynamics following accelerated declines have marked important turning points. This means that the first clear move to the upside is likely to put a floor of medium-term significance under these indices and sharp rebounds may ensue.

Today's interesting charts - The Chart Library has two Search Engines. One searches the more than 17,000 equities, funds and ETFs in the International Equity Library and the other searches through the rest of the Chart Library for indices, commodities, currencies, bond prices and yields, ratios, spreads and overlays.

Australia - finds [support](#) again near 4500 and would need to sustain a move below that level to question scope for some further higher to lateral ranging.

Ireland - finds at least short-term [support](#) near 3250 but remains in a steep downtrend. A sustained move above 4750 is needed to suggest that demand is returning in force.

Copper - remains in a three-month [downtrend](#) which is gathering pace. However, an upward dynamic would be needed to check momentum beyond a brief pause.

Natural Gas - continues to find [support](#) near \$7 and would need to sustain a move below that level to question scope for some further higher to lateral ranging.

Thursday 2nd October 2008

Libor Rises, Commercial Paper Slumps as Credit Freeze Deepens - [This report](#) from Bloomberg details the scale of the credit and confidence problem facing central banks. Here is the opening:

Interest rates on three-month dollar loans rose to a nine-month high, short-term corporate borrowing fell by the most ever and leveraged loans tumbled, exacerbating the credit freeze that's paralyzing businesses around the world.

The London interbank offered rate that banks charge each other for loans rose for a fourth day, driving a gauge of cash scarcity among banks to a record. The biggest drop in financial short-term debt outstanding since at least 2000 caused the U.S. commercial paper market to tumble 5.6 percent to a three-year low, according to the Federal Reserve.

The crisis deepened after the worst month for corporate credit on record. Leveraged loan prices plunged to all-time lows, short-term debt markets seized up and even the safest company bonds suffered the worst losses in at least two decades as investors flocked to Treasuries. Credit markets have frozen and money-market rates keep rising even after central banks pumped an unprecedented \$1 trillion into the financial system.

``The credit window is closed," Jim Press, president of Chrysler LLC, the third-largest U.S. automaker, said today at the Paris Motor Show. The financial rescue plan must be approved because ``it's important for us to restore credibility in our banking system."

My view - These are the problems that have crisis-oriented central banks scrambling to catch up. In a crucial change of priorities, they now pay no more than lip service to inflation. Instead, they are now concentrating efforts on providing sufficient liquidity, in an effort to prevent a far greater credit crisis in the west, with global implications in terms of GDP growth. We can expect further infusions because their efforts have yet to turn the tide, judging from these charts of the Ted Spread ([monthly](#), [weekly](#) & [daily](#)), which shows USD 3mth Libor minus US 3mth T-Bill Yield.

There is a Machiavellian aspect to all this. Obviously the so-called lending banks want to survive, individually, but they do not want to help a rival. Consequently, there is no circled wagons ([definition: 23 a](#)), cooperative approach to all this. Instead, we see a 'king of the [mountain](#)' contest, in which each man (commercial bank) would like to be the one left standing at the top of the pile.

How will it play out?

No one knows, but having crossed their [Rubicon](#) in terms of involvement, western governments will do everything in their considerable power to prevent a collapse of their banking systems. They should succeed, although we do not know when.

One of the technical signals should be a break in the progression of higher reaction lows on the daily Ted-Spread chart above, followed by the establishment of a clear downward trend. Stock markets are likely to struggle until this occurs but rally thereafter. Consequently, if central banks are unable to stem this accelerating credit freeze crisis soon, most stock markets will lurch lower before finding support prior to a yearend rally.

Looking across the valley - perhaps the crevasse into which stock markets have already descended a considerable way is a more apt image - events are moving rapidly in the direction of my recent [Back to the Future](#) theme.

Stock market valuations are much improved; the Peak Oil problem has been pushed further into the future; with most commodities tumbling the runaway inflation threat is in rapid retreat as fire (inflation) over ice (deflation) has been replaced by ice over fire; this enables central banks to target economic growth once again; long-term government interest rates are low; the US dollar crisis has passed, at least for the medium term.

I maintain that we are well into the latter stages of this bear market and that a bottom of at least medium-term significance is within sight, with timing subject to an improvement in the Ted-Spread and equivalent measures of lending confidence. Anticipating some success from government efforts to alleviate the credit freeze, current and pending, I expect a technical rally to commence this month, which should carry into next year, helped by the current oversold condition, seasonal factors and the post-US election bounce.

Looking further ahead, since the west's banking solvency and lending crisis now accounts for most of the remaining serious economic problems, I expect Asian emerging markets to lead the eventual recovery. Some commodity related markets may take longer to recover, because they were among the last to fall, but they will certainly benefit from the next synchronised economic recovery. Meanwhile, there is every indication that global GDP growth will weaken further before it next improves. Stock markets will lead that recovery, as they always have in the past.

Email of the day (1) - On timing:

"I would like to commend both you and Eoin on the continued excellence of your service in these troubled times. My subscription is soon due for renewal and I will be more than happy to renew it.

"In common with many others, my positions have taken a bit of a battering, but I am hoping to take advantage of the inevitable turn in the tide. You have referred recently to the prospect of taking new positions when the time is right.

Have you any further thoughts on this, in terms of timing and also what specific areas your focus will be on?"

My comment - Many thanks for your kind words and continued interest in Fullermoney.

These have been among the toughest and most frightening of conditions for investors but such events lead to future opportunities.

I think managers with large funds should now consider incremental buying on weakness, although this may be difficult where redemptions remain a consideration. I would try to avoid paying up, at least until uptrends are next established. For private investors taking a long-term view, cost averaging or nibbling on weakness can be justified.

Personally, I'm in no hurry because a cash reserve feels comfortable under the circumstances. I feel cautious about predicting more than a year end rally at this time. Also, we do not know the shape of the next recovery. Further weakness, let alone acceleration, would then suggest the sharp Type 1 / 2 recoveries, as taught at The Chart Seminar, but we are also likely to see extended base development for some markets.

Asian emerging markets will be at the top of my buying list, and I will use ETFs or funds selected from the Chart Library.

Email of the day (2) - On charting fear, VIX and an additional indicator:

"Regarding your comment about "charting fear" in Wednesday's Comment of the Day, we option traders often refer to the VIX as the "fear gauge" as it measures the implied volatility of options on the S&P 500 index and represents the market's expectation of volatility for the index over the next 30 days. Spikes in the VIX are usually driven by increased demand for put options which, as you know, are intended to hedge long positions in the underlying index or profit from short-term downside moves. To my knowledge it is the best indicator of uncertainty or "fear" in the market and we can effectively chart it by keeping a close eye on the VIX. As you correctly point out, we have just seen an accelerated peak of "fear" which is also represented by the recent spike in the VIX above 47. Observant proponents of the MACD Histogram would also notice a considerable divergence forming on the weekly chart for the S&P 500. This divergence, combined with the extreme spike in the VIX, is an explosive cocktail which I have not seen since October 2002."

My comment - Thanks for an informed email and we may see [VIX](#) push even higher given the politics surrounding the bank-rescue bill a month before a crucial election. And of course downward acceleration by stock market [indices](#) is evidence of fear, as are extreme measures of bearish [sentiment](#). With Eoin's Bloomberg skills, we were able to recreate your [chart](#) this morning.

Additional Commentary by Eoin Treacy

Mineweb.com: Uranium prices fall again as credit crunch bites - [This informative article](#) by Barry Sargeant covers the impact of the uranium price breaking down on uranium shares. Here is a section:

Scores of investors in dozens of listed uranium stocks around the world were once again disappointed in the past few days as uranium oxide prices moved down again, this time, to two year lows. Specialist trade entities Ux Consulting reported spot prices falling this week to USD 53/lb, down by USD 5/lb, while TradeTech reported USD 55/lb, also down USD 5/lb.

Ux Consulting, which also reported that the term (contract) market price fell USD 5/lb to USD 75/lb, after remaining at around USD 90/lb for much of the past 12 months, told its clients that the continued credit crisis gripping the US and its impact on the world economy was also impacting the uranium market. The uranium market, states UX Consulting "has experienced a great amount of activity as sellers (including hedge funds) have adopted a more aggressive posture to the market".

Ux Consulting believes the credit crisis does not bode well for the future of nuclear power as economic growth will likely be much slower in the future "resulting in a reduced need for new electricity generating capacity". Furthermore, "nuclear power plants are highly capital intensive and require a great deal of financing, which will now be more expensive and difficult to obtain".

The rate of uranium mine production expansion is expected to be cut back due to a recent falls in price, coupled with continued high production costs: "some projects may now be unprofitable and go undeveloped".

My view - [Uranium's](#) downtrend has been losing momentum over the last year but the recent downside break reasserts the move and it now needs to sustain a move above \$65 to break the progression of lower rally highs. Until now, the steadying of the metal near \$60 was a positive leash for uranium producers but this is no longer the case. Fears have risen that a broad based economic slowdown will reduce the need for quite so much power generation capacity, however I question whether this rationale will apply to countries such as India and China. Recession is unlikely in these countries and they will be unwilling to put their plans on hold. In fact as resources become cheaper they may be more inclined to speed up the pace of infrastructure development.

[Cameco](#) broke down from its more than two-year range in mid-August and accelerated lower. An upward dynamic is needed to check momentum beyond a brief pause.

[Energy Resources of Australia](#) remains the relative outperformer. It found support near AU\$15 three weeks ago and would need to sustain a move below that level to question potential for some further higher to lateral ranging.

[Paladin Resources](#) broke down three-weeks ago and needs to push back above C\$4 to question scope for additional downside.

[Denison Mines](#) broke down from the well defined range in early August and accelerated lower. However, an upward dynamic is needed to check momentum beyond a brief pause.

[Uranium One](#) broke down this week and needs to push back above C\$4 to question scope for some additional downside.

Australian Banks vs. International Banks - Thanks to subscriber for this interesting [report](#) on the performance of Australian Banks from Ord Minnett. Here is a section:

Ahead of the credit crisis, Australian banks had strongly outperformed their overseas counterparts. From the start of the decade to its peak in Nov. '07, the Australian banks had outperformed the major global bank index by 75%.

Factors that contributed to the Australian banks' outperformance include the structure of the Australian financial system, support from a strengthening commodities cycle and benign operating conditions for the banks (refer to the factors listed above). Overseas factors and conditions have been less supportive (e.g. a US recession earlier in the decade).

Subsequent to the onset of the credit crisis, Australian banks have fallen 30%, a level last seen in January 2006. While this adjustment has been painful, it is mild compared to overseas banks. On a worldwide basis, banks have fallen to January 2005 price levels, European banks have fallen to December 2004 levels, UK banks to September 2004 levels. The fall has been most acute in the US, where the banking index has fallen to a level not seen since July 2000.

Australia's banking system has been impacted by the credit crisis - funding costs have ballooned while access has become restrictive. At the same time the loan loss cycle has become a drag. But the effect has been muted compared to banks at the centre of the crisis in the US and Europe. Refer to comments from Governor Stevens previously to help explain the rationale.

My view - The [ASX 200 Financials Index](#) accelerated down to its March lows relative to the ASX 200 and has since been building support around that level since. It broke upwards in the last two weeks ago and would need to sustain a move back below 0.95 to question scope for some further upside.

In absolute terms, the [Financials Index](#) also accelerated to its [March lows](#). While it hit a new reaction low in July, this was only marginally lower, compared to the extent of the fall, and it has since pushed back above 4600. It is now testing the upper side of the three-month range and a sustained move above 5000 would be a milestone in any recovery for the sector.

Bears will be looking for the Sector to fail at the [moving average](#). If it can sustain a move back above the 200 day moving average, another milestone will have been reached. In the meantime, the Sector continues to outperform on a relative basis and has one of the better looking bases evident in the markets today.

Lumber Falls to 17-Year Low as Slumping Economy Curbs Demand - [This article by Whitney McFerron covers lumber's accelerating downward move. Here it is in full:](#)

Lumber plunged to a 17-year low on speculation that the credit crunch will limit demand for building materials.

Home prices dropped in 24 of 25 U.S. metropolitan areas in July from a year earlier as foreclosures depressed property prices, New York based real-estate data company Radar Logic Inc. said in a report today. Lumber futures plunged 15 percent in September, capping a 21 percent slide in the third quarter that was the biggest since 2002.

``The credit crunch is definitely affecting demand," said Jamie Greenough, a lumber broker and analyst at Global Futures Corp. in Vancouver. ``Jobs aren't getting done because people can't get financing."

Lumber futures for November delivery dropped \$9.20, or 4.6 percent, to \$190 per 1,000 board feet at 10:19 a.m. on the Chicago Mercantile Exchange, after earlier reaching \$189.20, the lowest for a most active contract since October 1991. Before today, the price had slumped 19 percent in that past year.

The Standard & Poor's 500 Index fell 23 percent this year as the subprime mortgage crisis brought down banks including Lehman Brothers Holdings Inc.

My view - [Lumber](#) remains in a consistent downtrend with a progression of lower rally highs over the last 5 years. It accelerated lower to its current level and looks overextended. However, an upward [dynamic](#) is needed to indicate that the bears may be coming under pressure.

Email of the day (1) - [on the use of Fullermoney's charts:](#)

"Am I allowed to use your graphs in a little light hearted 'chat' (unpaid) that I give out? I see they are marked Fullermoney so they should be attributable?"

My comment - [Thank you for this question which I'm sure others will also be asking themselves. Subscribers are welcome to use our charts in their presentations, books, newsletters or just to send to friends. As long as the Fullermoney.com copyright remains above the chart area, we are happy for them to be disseminated far and wide. So feel free.](#)

Email of the day (2) - [on the Bloomberg Financial Conditions Index:](#)

"I thought you both would enjoy this index as a 'new' sentiment indicator. I take it as an aggregate sentiment indicator for all the capital markets. It is obviously bearish - hence a buying opportunity, or in the least as you point out - an extreme indication of an oversold condition. I do not see it as Armageddon. I like all the sentiment indicators - VIX, TRADPAUS etc but this index was the first I saw which attempted to aggregate everything. Perhaps I have mis-read their ambitious calculations, but that is the way I have digested it. I appreciate your view, as always, and thank you both for your tireless efforts."

My comment - Thank you for your kind words and for pointing out this interesting [indicator](#) which Bloomberg define as:

"The Bloomberg Financial Conditions Index combines yields spreads and indices from the Money Markets, Equity Markets, and Bond Markets into a normalized Index. The values of this index are z-scores, which represent the number of standard deviations that current financial conditions lie above or below the average of the 1992 - June 2008 period."

Here is a [link](#) to a Bloomberg report by Michael Rosenberg which contains a number of interesting charts, many of which are in the Chart Library. I will be adding any of those that might be missing tomorrow. The commentary concurs with your view that this is an extremely oversold reading.

The Bloomberg Financial Conditions Index is now at more than 7 standard deviations from the mean activity over the last two decades. Such an oversold condition cannot be sustained beyond the short term.

Email of the day (3) - on additions to the Chart Library:

"Interesting to add this [chart](#) "Commercial Paper Outstanding"

My comment - Thank you for this suggestion which also shows just how frozen up the liquidity in the [Commercial Paper](#) market has become. I have added it to the Chart Library.

Today's interesting charts - The Chart Library has a wide array of spreads and indicators which may be useful for gauging the progress of the credit crisis.

Silver - encounters [resistance](#) near \$14 and needs to sustain a move above that level to question scope for some further lower to lateral ranging.

Nikkei-225 - breaks [downwards](#) to a new reaction low and needs to sustain a move above 12,000 to offset lower scope by breaking the short-term progression of lower rally highs.

S&P500 Diversified Financials - found [support](#) near 350 in September but needs to sustain a move above 500 to suggest that the bulls have regained the upper hand.

Friday 3rd October 2008

Buffett: My fix for the economy - This is an interesting [proposal](#) from the Oracle of Omaha, reported by Fortune. Here is a section:

"We had an economic Pearl Harbor hit," he said during an appearance at FORTUNE's Most Powerful Women Summit in Carlsbad, Calif. "For a couple of weeks we've been arguing about who's at fault [and] fooling around while things have gotten a lot worse."

On Wednesday, the Senate passed a \$700 billion bailout package. The House is expected to vote soon on the revised bill after rejecting an earlier version Monday.

Buffett said the bill isn't perfect, but it's a crucial step in the right direction. He then warned it will take a while to work and that the economy is going to struggle even with its passage.

"It will cost more to solve this problem today than it did two weeks ago," said Buffett, referring to when Treasury Secretary Henry Paulson's first proposed that Congress help rescue Wall Street after Lehman Brothers went bankrupt, Merrill Lynch was sold to Bank of America, and American International Group had to be rescued.

"If we don't get it solved next week," added Buffett, "I may go back to delivering papers."

My comment - [Read on for details of the proposal, which makes sense to me.](#)

Ted-Spread: Don't take your eye off it - [Over the decades, I have seldom looked at the Ted-Spread \(monthly, weekly & daily\)](#) on more than a few occasions per year, largely because credit squeezes, let alone freezes, have been relatively infrequent. I also wrote about the Ted-Spread yesterday and suggest that of the more than 17,000 charts in the Fullermoney Subscriber's Library, it may now be the most important graph for investors to monitor, for signs that this credit crisis is either intensifying or easing. I now look at it daily and subscribers can do the same, as it is located in the Spreads & Overlay Charts section on the Library dropdown menu, or just click on the Search button, type in Ted, and hit Find.

[Why is the Ted-Spread now so important and what should we look for?](#)

As I see it, recessionary problems will increase, as will asset deleveraging and liquidation, while the Ted-Spread increases. It reached a new all-time high today, indicating that the credit freeze is intensifying. This is a powerful headwind for stock markets, although not necessarily on a day-to-day basis.

For instance, we are seeing some short covering today in anticipation that the US Congress will pass the bank-rescue bill. Under the current dire circumstances, I view this as a necessary and positive step, although more stimulative measures will almost certainly be required.

Meanwhile, I doubt that the [US stock market](#) can commence the yearend, mean reversion rally towards its declining 200-day MA which I have talked about earlier this week, until the Ted-Spread breaks its uptrend and falls sharply. The eventual downside reversal may be rapid, but until it occurs and Wall Street steadies, most other stock markets will also remain under pressure.

Quote of the week - [On not worrying about pointing fingers at the past:](#)

"I operate on the theory that every saint has a past, every sinner has a future."
Warren Buffett

Additional Commentary by Eoin Treacy

China Could Be Dragged Down by Wall Street Crash - [Thanks to a subscriber for this interesting article by William Pesek for Bloomberg examining what might be needed to push China into a recession. Here is a section:](#)

Few questions confound economists more: What might tip China into the meltdown that so many have feared for so many years?

Possibilities include overheating, social instability, corruption, pollution, debt crises, war over Taiwan and a post- Olympics growth swoon. It's a perfectly rational expectation. No rapidly industrializing nation has ever avoided some kind of crisis, least of all upstarts in Asia.

The list rarely, if ever, included a Wall Street crash. And yet, financial troubles in the U.S. may be the catalyst that devastates the world's fourth-biggest economy.

This will sound like a reach to those viewing Asia's strengths. China, for example, is enjoying 10 percent growth as U.S. lawmakers argue over rescuing markets and averting a depression. With its \$1.8 trillion of reserves, China could bail out the U.S. without batting an eye.

Japan is returning to acquisition mode after its banks avoided the toxic debt devastating U.S. peers. Mitsubishi UFJ Financial Group Inc.'s \$9 billion investment in Morgan Stanley this week is a case in point. After years of lecturing Japan about its shaky banks, the U.S. is coming hat-in-hand to Tokyo.

Yet China's chances of avoiding the U.S. crisis are dwindling by the day. "U.S. consumers are tapped out and they're going to stop buying Chinese exports," says Simon Grose-Hodge, a strategist at LGT Group in Singapore. "There's no way China's domestic demand can take up that slack."

Recession Risks

Adds Michael Pettis, a finance professor at Peking University in Beijing: "We

should all hope the recession associated with the U.S. financial crisis is very, very mild."

The odds of a mild U.S. slowdown are declining almost as fast as stock prices. Even with hundreds of billions of dollars worth of Wall Street bailouts, consumption decreases and big job cuts will probably intensify.

The slow drip, drip, drip nature of Wall Street's swoon should concern officials in Beijing. China's mercantilist model makes the most populous nation dangerously dependent on consumers in the biggest economy. Growth in Asia will experience quite a setback if the U.S. enters a prolonged period of weakness.

While a Japan-like "lost decade" isn't the best-case scenario, Americans aren't sitting on the kind of savings that Asians are. As U.S. growth slows, debt is reduced and households increase savings, exporters such as Hong Kong, South Korea and Thailand must look elsewhere for demand.

My comment - I remember chatting with a consultant for the World Bank in the departures lounge of Xian airport while in China last year. He told me that while other countries have to ask the World Bank how much they can borrow, for China it's the other way around.

There is little doubt that the Chinese export model will be pressured as consumer spending slows in the USA and Europe. However, a global depression would be needed to throw the Chinese economy off its current growth track. The Chinese authorities have purposefully manufactured a slowdown in order to prevent the economy from overheating and are now beginning the process of easing policy to foster growth. They have considerable room to ease, without touching their massive foreign currency reserves.

Email of the day (1) - on fertiliser companies:

"Mosaic down 41% in a single day on a not-all-that-bad of an earnings miss. Oversold and completely illogical? Or am I missing something? :)

"Shares of Mosaic Co. fell 41%. The fertilizer and feed company's fiscal first-quarter net income rose to \$1.18 billion, or \$2.65 a share, from \$305.5 million, or 69 cents a share, in the year-earlier quarter.

"Foreign-currency transaction gains totaled 13 cents a share in the quarter, compared with a loss of 3 cents a share a year earlier. Mosaic also said net unrealized mark-to-market derivative losses impacted gross margin by 18 cents a share, compared to net unrealized derivative losses of 5 cents a share a year ago. Revenue more than doubled to \$4.32 billion from \$2 billion at the Plymouth, Minn. fertilizer and feed company."

My comment - Thank you for this informative email. This article from Reuters which appeared in today's Mineweb newsletter provides some additional

[background to this story. Here it is in full:](#)

Potash Corp (POT.T), the world's largest fertilizer company, continues to believe the sector is well-positioned for the long term, despite plunging stock prices on Thursday, a company spokeswoman said.

"In these tough financial market conditions, good companies and good business can certainly get caught up in overreactions, and we really believe that's what's happening here," Rhonda Speiss said.

Potash Corp was down 19 percent at C\$111.09 on the Toronto Stock Exchange on Thursday and down 26 percent at \$102.18 in New York. The stock has plunged 55 percent from its June peak as commodity stocks fell out of favor with investors.

Executives in the sector have complained of record-low valuations at a time when they are reaping record profits because of high fertilizer prices amid tight supplies.

Prices for potash have tripled during the past year as farmers, buoyed by historically strong grain prices, push to maximize yields by applying crop nutrients.

But falling grain prices and disappointing results from fertilizer maker Mosaic Co (MOS.N) prompted Merrill Lynch on Thursday to downgrade the farm sector, including Potash Corp, and Agrium Inc (AGU.TO) to "underperform," and stocks across the sector tumbled.

Agrium shares were down 21 percent at C\$46.15 in Toronto shortly after midday.

"We do take a long-term view of our business and our industry, and we believe that despite today ... the fertilizer industry is still very well-positioned going forward," Speiss said.

Speiss declined to comment on how Potash Corp thinks tightening credit markets will affect farmers seeking to buy expensive crop nutrients.

But she said the company will continue with plans to boost its potash mining capacity by 80 percent by 2012 -- projects worth more than \$6 billion.

"Our expansion plans are still full-steam ahead. That has not changed," Speiss said.

My view - Fertiliser companies were some of the best performing stocks in the earlier part of the year as soft commodities hit new highs. Expectation that farmers would do everything possible to increase crop yields was also a contributory factor. Share prices accelerated to unprecedented highs in what were remarkably consistent uptrends. Progressions of rising lows were the hallmarks for these uptrends. As soon as these sequences began to be taken out, the risk of more serious drawdowns increased. The extent of the decline has been startling and many of these shares, which maintain healthy balance

sheets, are now in deeply oversold territory. Also see Comment of the Day on [July 15th](#), [July 25th](#) and [September 11th](#).

There is the possibility that the credit crisis will crimp farmers ability to raise capital, so they may not be able to afford high priced fertilisers. However, P/Es for companies such as [Potash Corp](#) (>50 to 14.8), [Mosaic](#) (>50 to 6.14), [Agrium](#) (50 to 6.4), [Uralkali](#) (>90 to 37), [Yara International](#) (>16 to 4.6), [Incitec Pivot](#) (>40 to 21.7) and [Monsanto](#) (>50 to 23.7) have fallen considerably and imply that growth for this sector will be negated. While the expectations that farmers would be forced to pay any price for fertilisers at the top was an overestimate, the prices they have fallen to is becoming a similar overreaction. This acceleration is a Type-1 ending characteristic, as taught at The Chart Seminar. These companies are unlikely to go bust, so we are swiftly approaching a point from which they will rebound. Investors may wish to wait for a base to form or attempt to cost average on the way down, but the bear's are likely becoming nervous as these shares have suddenly entered 'value' territory. The operative term for all of them is that the bottoming out process is likely commencing.

[Potash Corp](#) peaked near C\$250 and accelerated lower to C\$100. An upward dynamic is now needed to suggest the bears are being squeezed and demand is returning.

[Mosaic](#) has fallen more than 75% from its June highs in a gut wrenching acceleration for investors. This is deeply oversold territory but an upward dynamic is needed to check momentum and confirm a near-term bottom.

[Agrium](#) has also fallen extraordinarily quickly, offsetting the entire advance from mid-2007. An upward dynamic is also needed here to suggest bears are being squeezed and a floor has been reached.

[Yara International](#) has not had the same one day declines as the shares above but has accelerated lower nonetheless. A sustained move above NOK200 is needed to break the progression of lower rally highs which have been the hallmark of this downtrend.

[Uralkali](#) had one of the more impressive uptrends and has been just as consistent on the downside. We are now starting to see more two-way action but a sustained move above \$8 is needed to break the progression of lower highs and the three-month downtrend.

[Incitec Pivot](#) has also accelerated lower and is looking increasingly overextended. However, an upward dynamic is needed to check momentum beyond a brief pause.

[Monsanto](#) did not perform as well as the shares profiled above and so has not had the same percentage decline to date. However, it broke down from the yearlong range yesterday and needs to sustain a move back above \$100 to question potential for some further downside.

These shares have undergone significant technical damage and while they are overextended on every possible measure, they have not signalled just yet that they have bottomed. Upward dynamics will help to put near-term floors under many of these shares, while more significant rallies and base building phases will be needed to attract investors in numbers sufficient to support moves strong enough to test the highs. As with all such investments, they are best bought following reactions.

Email of the day (2 & 3) - on gold in other currencies:

"Being Australian I checked the Gold price in AUD and was rather shocked to see it has hit an all time high in September. Haven't seen that commented upon."

And

"On Wednesday you mentioned the likelihood of Dollar strength and Gold weakness. But for Sterling investors Gold was until today at all time highs helped by the 18% depreciation of sterling against the dollar. Assuming the Dollar does gain against sterling Gold may well continue to be a place or relative safety. What do you think?"

"Thanks for what you both do."

My comment - Thank you both for these interesting observations. Checking the 29 charts of gold in different currencies, present in the Chart Library, I found that it had recently made new highs against the [British Pound](#), [Australian Dollar](#), [New Zealand Dollar](#), [Swedish Kronas](#), [Norwegian Kronas](#), [Korean Won](#), [Brazilian Reals](#), [Indian Rupees](#) and [Chilean Pesos](#). All have fallen back from their peaks in the last few days and would need to sustain moves to new highs to offset potential for some additional retracement of recent gains.

These currencies share the common characteristic that they have all had some of the largest deteriorations against the US Dollar over the last few months. [Gold](#), in US Dollars, remains in a corrective phase following an impressive advance earlier this year. It encountered resistance near \$900 this week and is currently retracing part of its short-term gain. It needs to sustain the move above \$750 to maintain potential for further higher to lateral ranging.

While gold is unlikely to be yet able to sustain a move to new high ground in Dollar terms, it still maintains its status as a relative outperformer. Continued Dollar strength is a tailwind for gold in other currencies provided it continues to consolidate above \$750. Precious metals are characteristically volatile and we can expect sharp downward reactions for time to time. This means that they are best bought following such pullbacks.

Staying with the gold theme; gold is setting new highs against the [Philadelphia Gold & Silver index](#). It broke upwards early August and continues to accelerate higher, in a move which is unsustainable beyond the short term.

However, a sustained move below 6.5 would now be needed to check momentum beyond a brief pause. At these levels, [gold shares](#) are at [historically](#) cheap levels relative to gold. It would seem only a matter of time before this trend reverses.

Email of the day (4) - on silver held by ETFs:

"[SLV](#) - Silver ETF Tonnes at the Month End:

Feb 08 - 5364.99
Mar 08 - 5578.95
Apr 08 - 5776.51
May 08 - 5989.57
June 08 - 6002.41
July 08 - 6276.86
Aug 08 - 6474.04
Sept 08 - 6852.24 (29th)

"Considering price was \$21 in Feb and now roughly \$11. Rather interesting isn't it. No investor panic, instead when the price really fell in Aug/Sept 600 tonnes added. Thoughts?

"(GLD did show signs of panic but a peak tonnage again)."

My comment - Thank you for these impressive statistics. If subscribers know if it is possible to chart this data using Bloomberg, I can add it to the Chart Library.

Volatility remains at extremely high levels, this means that investors are being forced to make decisions they wouldn't otherwise have to. Over the last few months the safety of money market funds has been questioned and investors have lost faith in their banks' ability to keep cash secure. Clearly some people are looking at precious metals as a hedge against a further deterioration of credit conditions. The logic being that gold and silver will still be gold and silver but if my bank goes bust, any portion of my savings not protected by government insurance will go to money heaven. This might help to explain the flight into SLV since August. This type of activity contributes to silver's already high volatility. As with gold above, silver is best bought following the inevitable corrections and left out following significant rallies.

Today's interesting charts - The Chart Library has a large number of pre-arrange ratios and spreads. However you can make your own, with the instruments of your choice, using the Charting tool.

Corn - extended the medium-term [downtrend](#) this week and need to sustain a move back above 500¢ to question scope for further downside.

Taiwan - following the number government statements about supporting the market, the TAIEX continues to find support near 5500. A sustained move below this level would be needed to question

Eurobunds - encounters resistance near 116 and would need to sustain a move above that area to offset potential for some additional downside.

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